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UNCLAS KUWAIT 003505

SIPDIS

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DEPARTMENT OF ENERGY FOR IE
EB/ESC/IEC FOR GALLOGLY, DOWDY
USDOC FOR 4520/ITA/MAC/AME
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E.O. 12958: N/A

TAGS: EPET ENRG BEXP KU OIL SECTOR

SUBJECT: NEW REFINERY TO BE "WORLD'S LARGEST"; KUWAIT CRUDE ABOVE \$52/BARREL

REF: A. 2004 KUWAIT 4125

B. 2004 KUWAIT 4557

¶1. Kuwait's planned fourth refinery, to be located in the Al-Zour area in the south of the country, will be "the world's largest" and will refine 615,000 barrels of crude oil each day, according to Kuwait National Petroleum Company (KNPC) officials quoted in August 4 newspapers. This refinery, one of a number of large projects with potential business opportunities for U.S. companies (Ref A), is part of a larger goal of expanding Kuwait's refining capacity from the current 930,000 bpd to 1.33 million bpd by 2010. The refinery will take approximately 66 months to complete, and is expected to begin production in 2010. The new refinery will replace the existing Shuaiba Refinery, which currently refines about 200,000 bpd, and will produce naphtha, kerosene and diesel.

¶2. Fluor Limited UK is the Project Management Services Contractor. Pre-qualification documents for the Engineering, Procurement and Construction (EPC) contractor portion are due August 8. KNPC expects to list the qualified EPC contractors by October 2005. From earlier estimates of around \$3 billion (Ref B), the estimated cost for construction of the new refinery is now being reported as \$6.3 billion. The Kuwaiti private sector will be invited to participate through a 20% capital investment and through some construction work being awarded to local contractors.

¶3. Kuwait Export Crude (KEC) continues to hit new records, reaching over \$53/barrel by mid-July and settling back down to \$52/barrel by the first week in August. KEC averaged about \$44/barrel in May, almost \$49/barrel in June, and about \$52/barrel for the month of July. With the GOK's most recent budget using \$21/barrel as a base price for revenue projections, it is currently estimated that the GOK will see current year budget revenues turn out to be KD 8.1 billion (\$27 billion) higher than projected. If KEC averages at least \$46/barrel for the rest of the year, the budget surplus will be approximately KD 5.6 billion (\$19 billion).

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